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Agenda Item 9a

September 12, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Quarterly Roadmap Progress Report
- II. **PROGRAM:** Total Fund
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

Background

In February 2011, the Investment Office presented the fiscal year 2011 – 12 Investment Office Roadmap to the Investment Committee. As a leadership team, we reflected on our vision and crafted a From-To statement to articulate the gap that exists between where we are today and where we are headed as an organization. We mapped out six strategic initiatives, along with tactics designed to focus our resources and to continue incremental progress toward our goals.

The six fiscal year 2011 – 12 Roadmap strategic initiatives are Investment Performance; Capital Allocation; Risk Management; Organization Systems and Controls; Cost Effectiveness; and Talent Management. To keep the Investment Committee apprised of our progress, we will continue to provide quarterly status reports throughout fiscal year 2011 – 12 and a comprehensive report at the end of fiscal year 2011 – 12.

The objective of this item is to highlight several key accomplishments achieved during the first quarter, detail notable upcoming deliverables, and explain why some tactics are not on target.

Also included are the following attachments:

- Attachment 1: Investment Office “From-To” vision and a listing of the fiscal year 2011-12 Roadmap strategic initiatives.
- Attachment 2: Dashboard detailing accomplishments and upcoming deliverables.

Key Accomplishments / Notable Upcoming Deliverables

Attachment 2 provides a detailed listing of accomplishments achieved during Q1, and notable upcoming deliverables. Highlights are as follows:

Initiative	Key Accomplishments	Notable Upcoming Deliverables
Investment Performance	<p>Completed Real Estate portfolio re-structuring and transitioned to implementation of new strategic plan.</p> <p>Changed reporting relationship of ARS from Global Equity to the CIO.</p> <p>Completed ESG Workshop with the Board.</p> <p>Funded and began managing the \$7 billion US Treasury portfolio in the Liquidity Portfolio.</p> <p>Continued working with the industry to create dialogue with the SEC to make changes in bondholders rights. Specifically, we prepared comments for the SEC’s September meeting.</p>	<p>SIP investment strategy and fund line-up.</p> <p>Continue infrastructure development for ARS – including revision of delegations and program policy and allocation framework.</p> <p>Develop Sustainable Investing Policy for the Total Fund and CalPERS Sustainable Investment Report for 2012.</p>
Capital Allocation	<p>Obtained Investment Committee approval for new asset allocations for the Long-Term Care fund, Judges’ Retirement System fund, Legislatures’ Retirement System fund, and three new California Employers’ Retiree Benefit Trust funds.</p> <p>Defined and presented investment beliefs to the Board.</p>	<p>Implement new fund allocations for the Long-Term Care fund, California Employers’ Retiree Benefit Trust funds, Judges’ Retirement System fund, and Legislatures’ Retirement System Fund.</p>

Initiative	Key Accomplishments	Notable Upcoming Deliverables
Risk Management	<p>Implemented new risk based asset allocation framework by amending policies and benchmarks.</p> <p>Presented monthly tracking error package to ISG for total plan, asset allocation, Global Equity and Global Fixed Income.</p>	<p>Complete testing and go live with new Risk Management System (BarraOne).</p> <p>Plan and conduct Board Risk Workshop for Fall 2011.</p> <p>Present final product using new risk system data to the ISG in November 2011.</p>
Organization Systems, and Controls	<p>Completed the Master Custodian Contract and completed transition to the Master Custodian's new enhanced service model.</p> <p>Defined and implemented T+1 daily hard close process.</p> <p>Completed three rapid result projects – (1) Designed Operating Event Measurement and Escalation which defined operating events and established a tracking system and escalation process; (2) Delivered a first-cut, enhanced CIO monthly performance report; and (3) Consolidated of the Investment Office Board Reporting by reducing the monthly supplemental reporting document by over 80%.</p> <p>Developed travel policies and procedures to provide guidance on travel and completed travel training for Investment Office staff. Implemented pre-trip compliance review.</p>	<p>Complete testing and go live with new Risk Management System (BarraOne).</p> <p>Complete analysis for Equity Order Management System for Portfolio Construction and Global Equity Investment Book of Record (IBOR).</p> <p>Complete review and refresh of the Investment Office Disaster Recovery and Business Continuity Plan.</p> <p>Issue valuation management services RFP for Real Assets Appraisal Program.</p> <p>Initiate three new rapid results projects.</p>

Initiative	Key Accomplishments	Notable Upcoming Deliverables
Cost Effectiveness	<p>Worked with CEM to identify a relevant global peer group for the Global Leaders Survey and will assess once detailed report is provided. The Global Leaders survey provides a collaborative forum for leading funds to learn from each other and gain perspective on shared management challenges. Note, CEM will not change our peer group for the annual CEM Benchmarking – Cost Effectiveness Analysis.</p> <p>Began the expense management project to develop cost allocation methodologies and designed draft financial reporting materials and quarterly report format.</p>	<p>Launch financial reporting and process reengineering projects.</p> <p>Provide an expense overview to the Investment Committee in Q3.</p>
Talent Management	<p>Completed year end performance evaluation and compensation calibration.</p> <p>Focused on culture with an increase of recognition, communication and events such as ACE Award Coffees, Investment Office Forums, Speaker Series, and held an Investment Office Picnic.</p> <p>Enhanced recruitment materials and recruitment process via social networking sites such as Facebook, LinkedIn, and Twitter.</p> <p>Developed a mandatory leadership education class and completed the first round of training.</p>	<p>Conduct second session of training for leadership education and develop Investment Office Onboarding course.</p>

Key Objectives – Not on Target

The following objectives are at risk of not being completed within the agreed upon timeframe. Investment Office management is assessing each objective in order to develop mitigation strategies.

Initiative	Tactic	Completion Date	Status	Explanation
Investment Performance – Global Equity	Incorporate CalPERS “values” into the skill search and validation process	Sep 2011	▼	Staff is currently being identified but there is limited capacity since the team has been reduced by nearly 50% with the separation of ARS.
Investment Performance – Global Equity	Functionalize Global Equity organization	Dec 2011	▼	The separation of ARS from Global Equity has restarted the functionalization effort. The next important hurdle is to begin the search for a new SPM to lead this effort. The position has been approved and is currently in the HR approval process.
Investment Performance – Global Equity	Consolidate emerging manager programs into fund structure and migrate MDP managers to fund-of-funds pool upon completion of alternate solicitation contracting process	Dec 2011	▼	This effort is dependent upon the Global Equity organization functionalization and technology improvements (PM ²); therefore, impacting all niche like strategies managed by external emerging managers.

Legend: ▼ = need to watch, ■ = management attention needed

Initiative	Tactic	Completion Date	Status	Explanation
Investment Performance – Global Equity	Implement Public Markets Portfolio Management (PM ²)	Mar 2012	■	Completed a detailed analysis phase and evaluated a potential vendor solution; however, this assessment identified that vendor system is not ready to meet CalPERS business needs. This determination affects the ability to meet the project timeline. The focus now is to evaluate alternative ways to meet the objectives of the project, including the consideration of expanding the use of existing systems already utilized within the Investment Office.
Organization Systems and Controls	Establish Investment Office Compliance function and develop investment compliance monitoring program based on industry best practices	Jun 2012	▼	Dependent on approval and hiring of 2011 – 12 PY's. Head of Investment Compliance and Operating Risk has been hired and will start on September 30, 2011.
Organization Systems and Controls	Strengthen investment policy compliance and monitoring	Jun 2012	■	Dependent on approval and hiring of 2011 – 12 PY's. Head of Investment Compliance and Operating Risk has been hired and will start on September 30, 2011.
Organization Systems and Controls	Begin to articulate investment valuation, pricing and data governance	Jun 2012	▼	Resource constraints hindering start of data governance project work and valuation/ pricing governance.

Legend: ▼ = need to watch, ■ = management attention needed

Initiative	Tactic	Completion Date	Status	Explanation
Cost Effectiveness	Establish and agree upon cost allocation methodology approach for financial reporting	Dec 2011	■	Completed Phase I of expense management project with KPMG; identified significant issues that will take more time and resources to resolved than initially expected. Have not received approval to recruit Investment Officer position for financial management.
Cost Effectiveness	Design enhanced financial reporting materials at the asset class and total fund level	Mar 2012	■	Completed Phase I of expense management project with KPMG; identified significant issues that will take more time and resources to resolved than initially expected. Have not received approval to recruit Investment Officer position for financial management.
Cost Effectiveness	Evaluate and select tool for financial reporting to manage and track Investment Office expenses	Jun 2012	■	Completed Phase I of expense management project with KPMG; identified significant issues that will take more time and resources to resolved than initially expected. Have not received approval to recruit Investment Officer position for financial management.
Talent Management	Develop better tools, data, and processes to support more effective recruitment	Jun 2012	■	Not started; given the volume of open positions, an aggressive outreach strategy is needed.

Legend: ▼ = need to watch, ■ = management attention needed

V. STRATEGIC PLAN:

This item supports the following Strategic Goals:

Goal I: Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.

Goal IX: Achieve long term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

Costs to implement the 2011 – 12 Roadmap was submitted in the Investment Office 2011–12 budget request.

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